



REPUBLIC OF NAURU

2013-14 BUDGET

BUDGET PAPER 2

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FOR THE INFORMATION OF HONOURABLE MEMBERS
ON THE OCCASION OF THE BUDGET 2013-14

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PART 1: The Economic Outlook

Nauru is poised to enter a new growth period which will drive its economy well into the next decade. The re-opening of the Regional Processing Centre (RPC) on Nauru in September 2012 has had a dramatic impact on the island's economy.

Whilst Nauru's economy is in this new period of growth it is however, exposed to many challenges including overburdening debt levels and high unemployment. Conditions in Nauru are expected to grow during the 2013-14 budget year despite the plight of some of the much larger economies such as the US and Europe and probably reflects the speedier recovery and stronger growth being seen in the Asia-Pacific region.

Pacific economies continued to benefit from the recovery in the world economy since 2010. Economic growth for the year as a whole was, however, low in most cases. According to the ADB projections, growth for the Pacific island economies is softening. In 2012 economic growth in the Pacific moderated to 7.3% which has been driven primarily by the performance of the region's larger, natural resource extracting, economies. Growth is predicted to continue to moderate in 2013 before picking up again in 2014. Growth in the Pacific is expected to slow further to 5.2% in 2013 before picking up to a moderate 5.5% in 2014.

According to ADB, in the year ended 30 June 2012, GDP growth for Nauru expanded by 4.9%, due largely to increased phosphate production and aid flows. Growth is expected to increase to 8% in 2012-13 and 2013-14, despite some projected declines in phosphate production because of developments outside mining. Construction, hotels, restaurants and retail trade, along with Government finances, are expected to be boosted from the regional processing centre (RPC).

The resource-rich economies including Nauru are projected to perform well according to the ADB Pacific Economic Monitor. Moderate growth is expected with higher export prices achieved for phosphate products. Projections of revenue from sales of phosphate is about \$59.1 million. World prices for phosphate, however, remain the determining factor for continued growth in this sector.

Economic outlooks for the two largest economies in Oceania (Australia/New Zealand) play a significant role in underpinning economic growth of the Pacific island economies although both Australia and New Zealand are currently experiencing a slowdown in growth from a peak in 2012. The performance of tourism and remittance flows are two sectors expected to continue.

Increases in commodity prices are expected to result in better economic performance in resource-rich countries, particularly in areas like petroleum, minerals, and exports of agricultural products. As a mineral exporting nation Nauru is expected to be among the beneficiaries, although the prospects of inflation due to imports may limit to some extent overall economic benefits achieved. Currently, Nauru has been experiencing a period of lower prices or deflation despite the economy bouncing back with more positive economic growth outlook. Indications are showing an increase in the CPI driven mainly by the activity associated with the RPC.

Nauru's limited and volatile revenues from non-donor sources like fisheries license revenue and phosphate related payments continue to be difficult to forecast with accuracy, and are both subject to factors and influences that are beyond the control of the Government. However, in 2011-12, revenue from both phosphate and fisheries licenses showed remarkable increases. To June 2013, phosphate revenue amounted to \$52.1 million and.

Fisheries licenses brought in \$10 million to the end of June 2013. The Government continues to aim to broaden Nauru's economic base, which will insulate against the volatile and limited nature of current revenue streams.

As a result of the improving economic performance for Nauru, the GoN has been able to meet its commitments towards the Nauruan people through the repayment of large sums of monies. These payments relate to pending salaries, Ronwan, land rentals and phosphate royalties, and increases in welfare benefit payments to the aged and disabled. Government has recently announced that aged and disabled Nauruans will be entitled to an increase of \$50 per fortnight in their pension.

Continuous power supply has been maintained and water supply made more reliable through the opening of the new water storage facility and the refurbishment of the reverse osmosis units. The demand for power and water has increased significantly due to the re-opening of the Regional Processing Centre (RPC). Consequently, this is placing cost pressures on the Government and Nauru Utilities Corporation to meet this increased demand.

Significant reforms of SOEs are continuing which commenced with the corporatization of Nauru Utilities Authority (Utilities) in June 2011 and introduction of performance management approaches and governance and management restructuring in Utilities, Ronphos and Rehab. These reforms are aimed at improving efficiency in the operations and management of these SOEs which ultimately should lead to better performance and improved service delivery.

In the areas of public financial management, the Nauru Revenue Office has been established and operational, which has resulted in proactive management of government revenue and increasing effectiveness of revenue collection. The RPC is also impacting on the Revenue Office's operations through the necessary collection of import duties on construction equipment brought in by the RPC construction companies.

Installation of the new Financial Management Information System (FMIS) is now providing the Government of Nauru a system that has the capability to meet its financial management and accounting. This system recently was upgraded to meet Nauru's particular financial management requirements.

During 2012-13 the GoN embarked on a number of public financial management initiatives, including:

Adoption of the procurement policy framework scoping study prepared with the assistance of AusAID. The Government engaged a consultant to implement the new procurement approach and an International Procurement Agent has been appointed and has begun operations in Nauru in September.

Assessing options for re-establishing banking services on the island. GoN has prepared a business case for the re-opening of a banking operation on the island and have presented this to a range of Australian and regional. As a result of this work, the Government has identified a bank that is prepared to set up operations in Nauru. Negotiations are continuing.

Nauru Trust Fund

With the technical assistance provided by the ADB the Government of Nauru is well on the way to establishing the Nauru Trust Fund to accumulate, preserve, grow and mobilise

capital for development. The Government plans to put aside and invest a proportion of Government phosphate royalties to the new long term Trust Fund. There is a provision in the 2013-14 Budget to invest \$500,000 into the fund. This will be an ongoing contribution based initially on \$1.00 per tonne of phosphate exported. There are also donors keen to contribute much larger sums to the Trust, also on an ongoing basis. The Trust will be similar to those in Tuvalu and Kiribati, and will use best practice governance arrangements.

Nauru will continue to progress discussions with key partner governments in order to achieve a truly international agreement on the Trust Fund whereby no single party or Government can unilaterally withdraw monies from the Fund or change the Articles of the Fund. The Government has allocated an additional \$2 million as an additional cash injection to the Trust Fund which is a further demonstration of its commitment to the Trust Fund.

Private Sector

One of the primary goals of the National Sustainable Development Strategy (NSDS) is to develop an economy based on multiple sources of revenue including through development of the private sector. The NSDS emphasises the importance of the promotion and development of small and micro enterprise (SME) businesses and to ensure a growing and vibrant private sector through strengthening the general business and investment environment.

In 2013-14, the Government is committed to develop a more favourable business environment on Nauru, which includes the commencement of bank operations on Nauru.

Through 2013-14 the Government will continue work to develop an Implementation Strategy for the Private Sector which sets out the path in which the private sector, development partners including AusAID, and the Government need to take to achieve its goals.

Nauru's infrastructure roadmap, Nauru Economic Infrastructure and Investment Plan (NEISIP) has been formulated with the assistance of the Asian Development Bank (ADB). A review of the infrastructure sector was undertaken in March 2013. The review concluded that the infrastructure projects were being undertaken and that it was necessary to also develop Master Plans to assist in planning and implementing the NEISIP. These Master Plans would also assist donors to plan their assistance programs better. Any infrastructure development will have a trickle-down effect on the private sector. Small Business Development is being supported by UNDP and Taiwan.

Discussions and planning of activities for phase II of Nauru Entrepreneurship Development Centre (NEDC) were carried out during ICDFs (Taiwan) visit in October 2012. Phase II activities are expected to commence once the amendments to the agreement have been endorsed and signed by both parties. The amended project agreement has been sent to ICDF Taiwan.

The Government is also committed to improving shipping services with the aim to reduce shipping costs for everyone including the private sector by providing an alternate shipping vessel with alternate routes. In this regard, the company Reef Shipping recently taken over by Matson has commenced a new container shipping service to Nauru. This has allowed private businesses to buy and sell cheaper products and offer a more variety of goods.

The Government will also explore other ways to build a vigorous business and investment environment through major developments and improvements in the infrastructure sector.

Australian Regional Processing Centre

The Regional Processing Centre (RPC) commenced operations in August 2012 which houses asylum seekers wanting to enter Australia. The RPC now houses over 500 asylum seekers and employs over 200 local staff. Nauru is currently imposing a visa charge on each asylum seeker while on Nauru. The current visa charge is \$1,000 per asylum seeker per month.

The flow on effect of the RPC is also providing additional income to Nauru, including the Nauru Utilities Corporation (NUC). Additional water supplies are being sold to the RPC as well as electricity and fuel. Businesses in Nauru are also benefiting through various contracts let by the RPC for the provision of food, laundry services, and other daily essentials. NRC has also benefited well from the RPC with a high demand for aggregate and waste services.

PART 2: Economic Statistics

The Nauru Bureau of Statistics (NBS) is scheduled for a busy fiscal year (2013-14) with finalizing the Household Income and Expenditure Survey (HIES) with the fieldwork expected to end by September 2013. This survey will provide the new baselines and benchmarks for economic statistics and provide data for a second poverty analysis report. The census report to be published and launched early October 2013, will provide information on the demographic changes in population as well as provide the foundation for further studies in relation to the population of Nauru. Other subsequent reports that will also be produced from the census will include fertility and mortality monographs, as well standard of living based on some proxy measures linked with possible HIES findings on household ownership of specific goods. The HIES survey will re-establish benchmarks for economic statistics, and measures on National Accounts (GDP) and Balance of Payments (BOP). The most noticeable products from the HIES will be establishing the new Consumer Price Index basket (CPI) used in price surveillance for the monitoring of inflation, and a poverty report that studies living conditions and standards of the residents on Nauru.

The Government is committed to achieving the statistical-related NSDS short-term goals by improving the baseline coverage of economic statistics by 2015. Between 2012 and 2013, development partners have committed expert assistance in the areas of National Accounts and survey undertakings for the HIES, including funding workshops and training attachments. A review of the National Accounts from FY2009/2010 took place and the findings of the mission are tabled herein this report. The Balance of Payments review and compilation will occur later around August or September 2013 with the help of technical assistance from IMF/PFTAC.

National Accounts

In mid-2004 (FY2003/2004) National Accounts compilation was resumed, the annual value of Nauru's gross domestic product (GDP) per capita was estimated by the SPC Statistician at USD 3,500. This estimate was made in line with the standards and recommendations in the UN's System of National Accounts, and so is comparable with estimates made elsewhere using the same system. However, there are a number of features of the Nauru economy which needed to be taken in mind when comparing this figure with other PICs.

National Accounts was reviewed in March 2013 from FY2009/2010. Figures for years from FY2009/2010 need to be further revised to incorporate budgetary changes in expense or revenue that have occurred since the first compilation due to the absence of robust data particularly from state-owned-enterprises. A Balance of Payment review is expected to occur in August or September of 2013 with the assistance of Pacific Technical Assistance Centre (IMF/PFTAC).

The National Accounts are still being peer reviewed for accuracy and consistency. Preliminary results show an upward trend in mining and manufacturing to 2011-12.

Special Project (New Policy Proposal) – Institutional Strengthening Project

In view of the Nauru Bureau of Statistic's lack of capacity to collect and process accurate National Accounts and Balance of Payment data, an Institutional Strengthening Program is being proposed. A National Strategy for Statistics Services (NSSS) is being developed which shall initiate the first phase of an Institutional Strengthening Project (ISP) for Nauru's National Statistics Services (NSS). The initial stage of developing this strategy is through a consultation process that will assist in developing the Roadmap. The Roadmap will identify and address priorities and issues facing statistical collection frameworks, gaps, 'availability' of statistical data, accessibility, security and other areas that are critical for the formulation of government policy. The subsequent events or activities that will follow will be the development and approval of an implementation strategy and finally the implementation of the Statistics Institutional Strengthening Project (SISP). The end goal or target to achieve the final stages of gaining full support and implementation of the SISP is expected to be a reality by 2015. This major undertaking is expected to bring to the forefront for the first time a significant paradigm shift by government on the coordination and strengthening of essential statistical services and assets, from a fragmented to a more cohesive system for policy formulation geared towards enhancing Nauru's social and economic prosperity in a holistic perspective. The efforts from NBS alone can only cater for a small portion of the critical statistical information needs. This project shall assist strengthening the collection of economics statistics aimed at improving reporting on GDP and BOP among others.

Gross Domestic Product

The following 2 charts illustrate the trend of the actual GDP figures in current and constant since FY2003/2004 to 2011/2012. The charts do not show the extreme fluctuations of the size of growth experienced by each industry. From the charts;

The general trend from these charts shows a sharp increase in the output of mining and manufacturing, particularly from 2008-09. This relates to the increase in production of phosphate

The trend is more apparent and dramatic in constant price (2007) terms than with current prices.

The Australian Dollar weakened in 2008 from 1.11 the previous year to 1.34, a 21.6 percent change. Given that constant prices take only volumes into account, a decline in constant prices was experienced. However, the current prices will grow much higher due to a loss in market value of the AUD. It can be noted that as the AUD edges closer to parity with the USD, constant price growth is expected to start too narrow. As the USD is the negotiated currency used for sale of processed phosphate rock fluctuations in the exchange rate will have an effect on economic output relating to phosphate mining and manufacturing.

Chart 1. Actual Current GDP from FY2003-04 to 2011-2012 of three major industries affecting commerce on Nauru (\$'000)

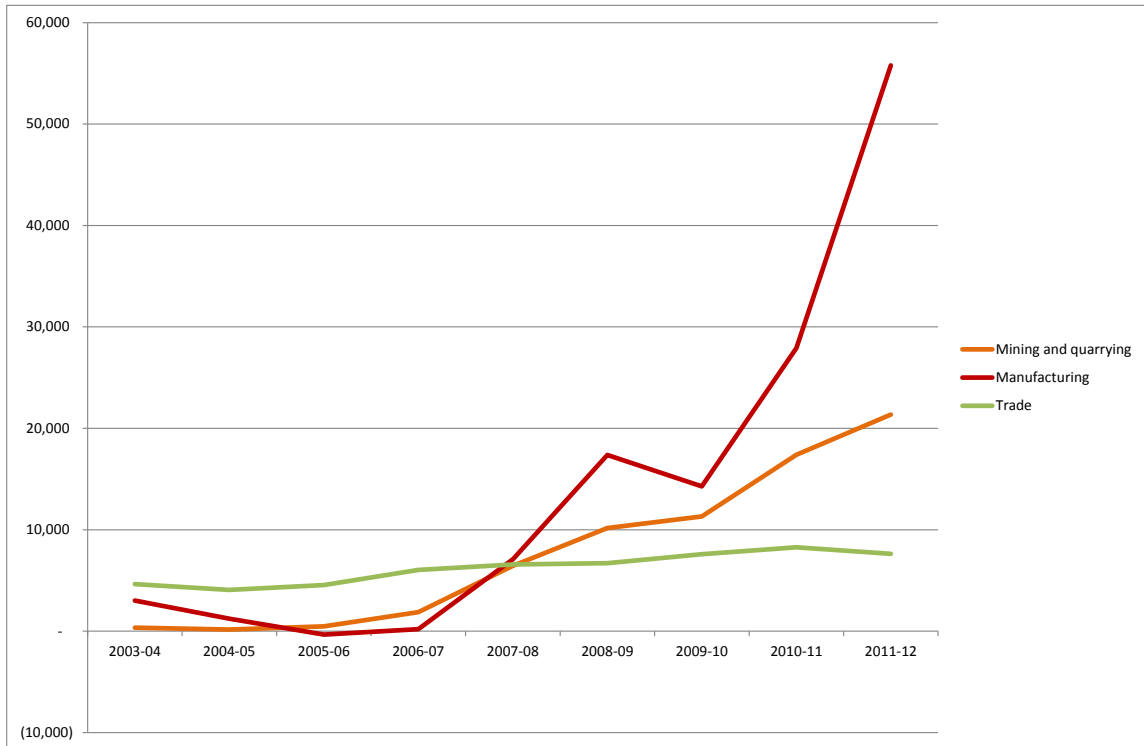


Chart 2. Actual Constant (2007 Prices) GDP from FY2003 to 2011-2012 of three major economic industries affecting growth in commerce on Nauru

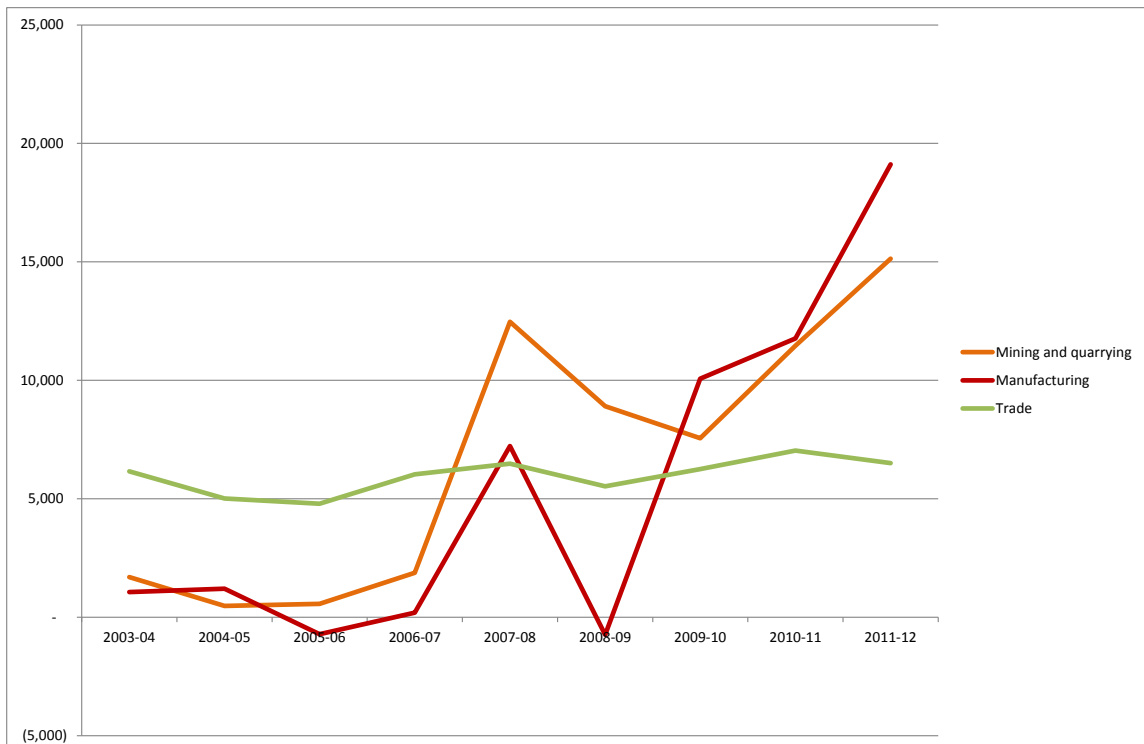


Chart 3. Proportion of GDP by Industry 2003, 2008, 2012 at current prices

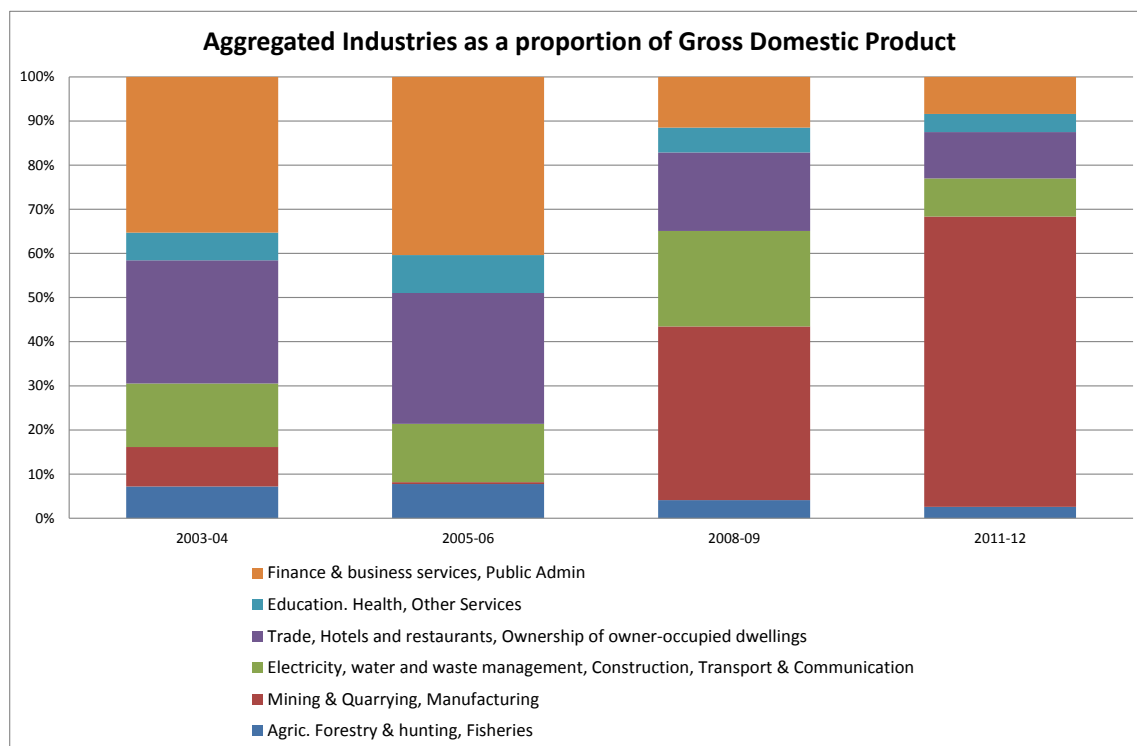


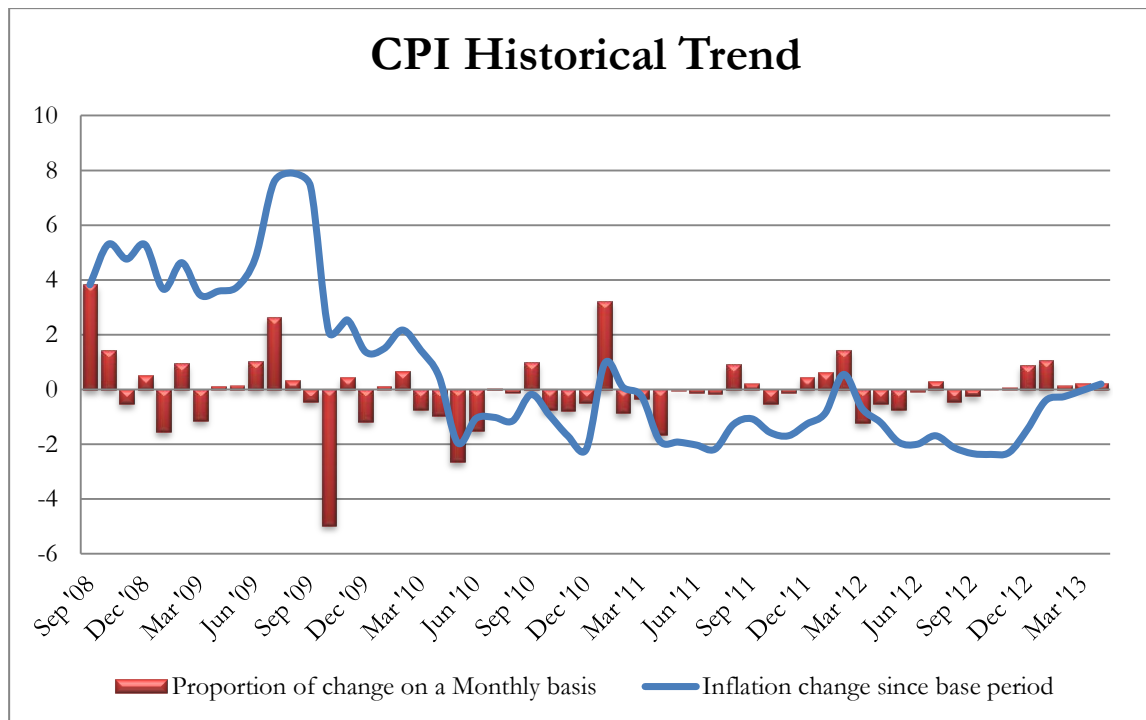
Chart 3 above shows aggregated industries as shares of total gross domestic product. It can be seen that *Mining, Quarrying and Manufacturing* has experienced the most significant growth over the period from 2003, to seizing production in FY2005/2006 and the latest year 2011/2012. By 2008/2009 the share of GDP for these industries increased to 40 percent of GDP, and by 2011/2012 it represented a majority proportion with almost 70 percent of total GDP. Prior to the ceasing of operation in 2005/2006 during 2003/2004 the total share of GDP for this industry was approximately just less than 10 percent. The rest of the industries showed decreases with the most noticeable being in the *Finance & Business Services, Public Administration* industry with shares of GDP showing decreases by more than three quarters which can mostly be attributed to the reduction of the national salary scales under reform policies, and the ceasing of all government financial institutions due to FATF blacklisting. *Trade, Hotels & Restaurants, Ownership of Owner-occupied dwellings* began in 2003/2004 with a total share of GDP of almost 30 percent but by 2011/2012 the share dropped to one-third of GDP. The trend in shares of GDP were similar for the remaining aggregated groups falling approximately by half or two-thirds in proportions. The groupings of the aggregates were mostly for convenience but some attempt was made to group similar industries together.

Consumer Price Index (CPI)

It is worth observing and noting that from the inflation change since base period depicted in the linear graph of Chart 1 that from the onset of the Consumer Price Index when it was rebased in August 2008 that price levels were considerably high compared to recent times. This high inflation period from September 2008 to mid 2010 was when the Food Index surged and gradually declined and stabilised overtime as a result of global shortage of rice. According to the rebased CPI market basket, rice is the top item in a common household expenditure. The Food index considered the most important group in the CPI market basket is the driver for the volatility of the CPI.

After the easing of the Food index in mid 2010 followed by the sharp fluctuation of the CPI, it is obvious that based on the long term observation, the price levels currently sustained is the true level of inflation for Nauru.

Chart 1. CPI Historical Trend (% change)



In an annualized change (Chart 2) for April 2013 the goods and services posted an increase of consumers’ prices as result for a majority increase of the CPI groups with five out of the seven groups posting positive values.

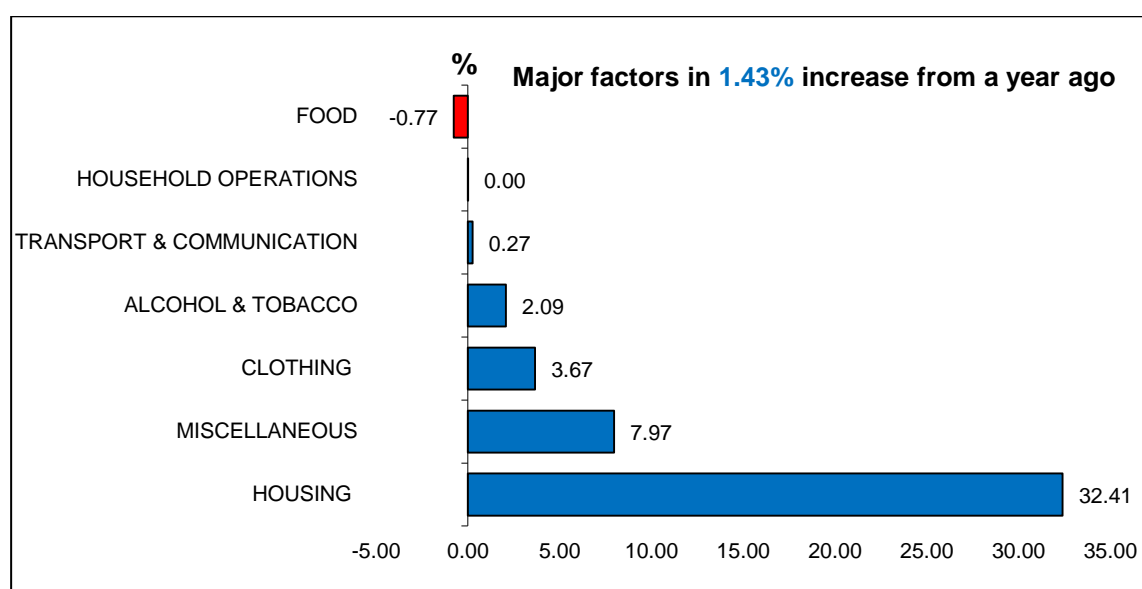
The largest contributor to the annual price increase is the significant surge of the Housing index with 32.41 percent compared to a year ago. The main contributors are traced to the following items with rising prices of 40kg cement bags leading the surged with 80 percent increase from a year ago. Likewise, evident for surge in timber and ceramic tiles prices is also equally evident and significantly contributed with increases of 32 and 16 percent respectively. These three items formed the basis for the significant increase of the Housing index over the year.

Posting similar upward trend is the Miscellaneous index with 7.97 percent. The main component affecting this rise is attributed to exercise books and blank compact disc (cd) where the prices surged 50 and 30 percent respectively. Other smaller contributors are also evident in school uniform with 10 percent increase, deodorant and a canister dog food which both rose 8 percent respectively.

The Clothing index reported slightly smaller annual growth in comparison to the latter indexes with 3.67 percent. The major components impacting this change are related to the rise in ladies mumu (local dress) and large t shirts with increases of 17 and 11 percent respectively. Also trending upward is the Alcohol & Tobacco group with 2.09 percent and the sole contributor is traced to the surge of a packet of cigarette which inflated 3 percent.

The index for Food posted an annual deflation of 0.77 percent. Within Food the largest contributor to the decline was cooking oil and noodles with drops of 16 and 15 percent. This is followed by decreases in price of canned tomatoes and tea bags with 12 and 11 percent. Likewise soya sauce and a tinned coffee contributed with 9 and 6 percent drops. Soft drinks and milk powder posted annual decreases with a 4 percent decrease respectively. Furthermore, eggs and tinned corn beef also posted declines with 4 and 2 percent respectively. The last food item posting the smallest decline over the year is 2kg sugar bag which fell by 1 percent.

Chart 2. CPI Annual % change



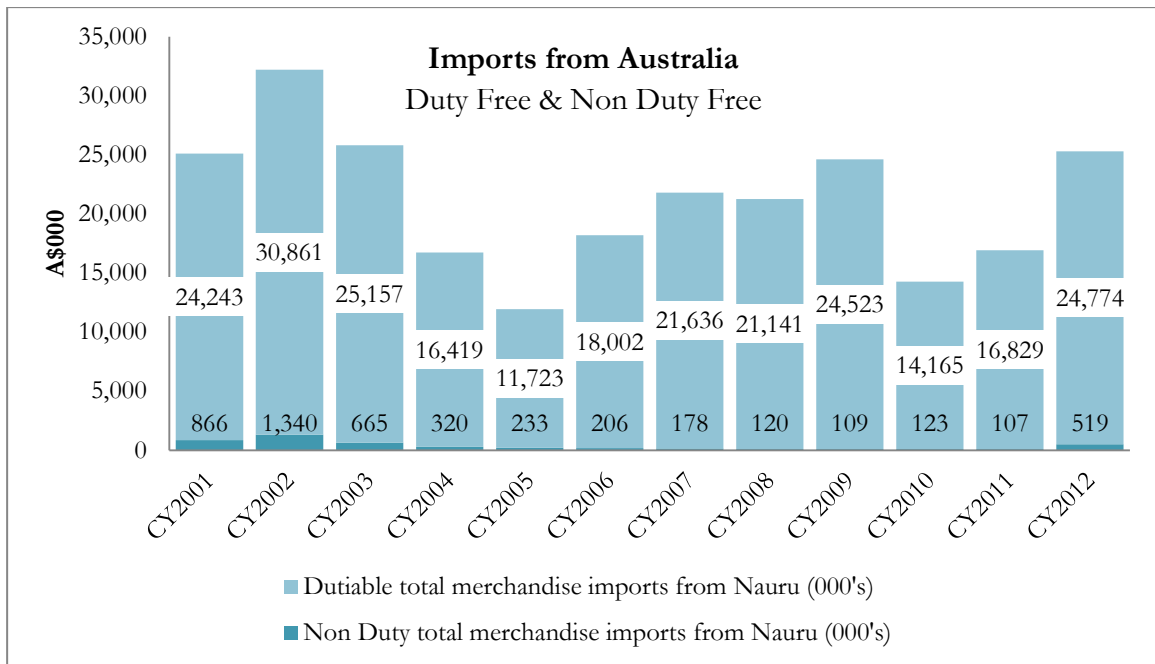
Trade Statistics

Trade statistics is one of the main economic indicators in monitoring sustainable development. It depicts the resilience of economies in terms of self-sufficiency in production, consumption, income and overall welfare at the country level.

Trade Statistics are compiled to serve the many needs of users, including Government, businesses communities and the public at large for their many different uses. It is mandated for the bureau to provide this reliable information with the cooperation from our line agencies especially from Customs. Although recommendation for Customs modernisation to facilitate statistical collection purposes of Trade has been going on for a very long time, very little progress has been instigated.

Due to the lack of national trade data, the bureau has opted to use secondary sources to accommodate data gaps and analyse the mirror trade data which are shown in the following charts (Charts 3 & 4). Chart 3 shows the value of merchandise imports by dutiable and non-duty goods from its primary trading partner namely Australia. It is evident that imports for the last 3 years have slightly increased which is attributed to national economic growth and introduction of the Regional Processing Centre.

Chart 3. Nauru’s Duty free and Non duty-free imports from Australia CY2001 – 2012.



In Chart 4 below, two of Nauru’s main trading partners namely Australia and Fiji have both recorded increases over the past 3 years. Australia remains the primary supplier of Nauru’s material needs and supplies.

Still the most noticeable impact which has fallen under the radar is the import growth from Fiji which has recorded doubled imports value over each of the six consecutive years from 2007. This growth is attributed to the stronger Australian currency together with improved regular shipping schedule. The growing trend is traced to increased importation of food stuff over the three year cycle, however according to the mirror data, individually the top three imported goods in 2012 were found to be bottle water, vehicles transshipment and kava.

Chart 4. Imports value by primary trading partners, CY2002-2012

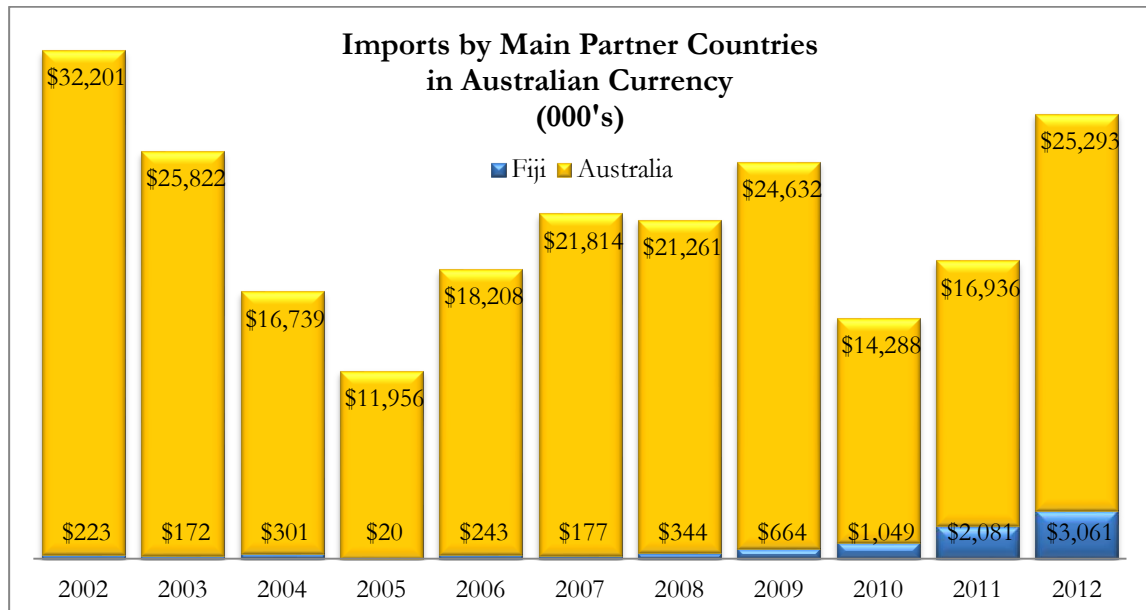
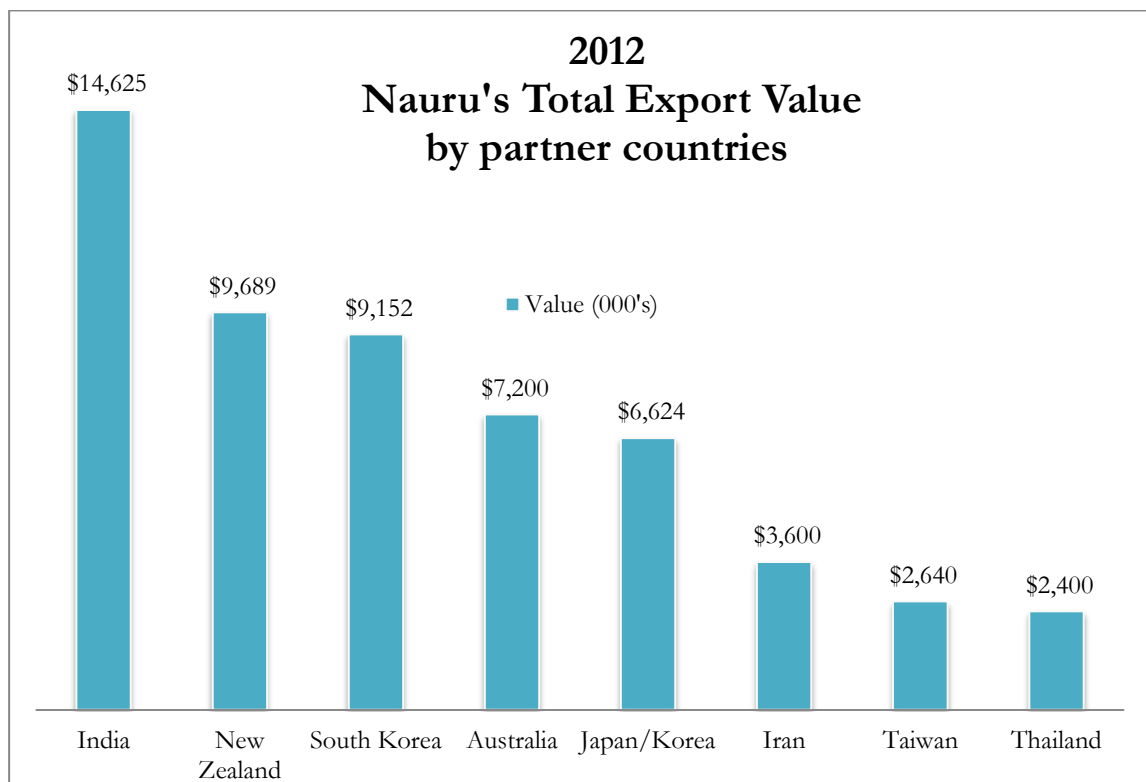


Chart 5 below show the latest export figures by main exporting partners with a growing demand from the Asian region. This is a result for the transition of the mining sector with an improved infrastructure and increased productivity. With primary mining sources becoming exhausted this trend will begin to decline, until secondary mining is fully underway.

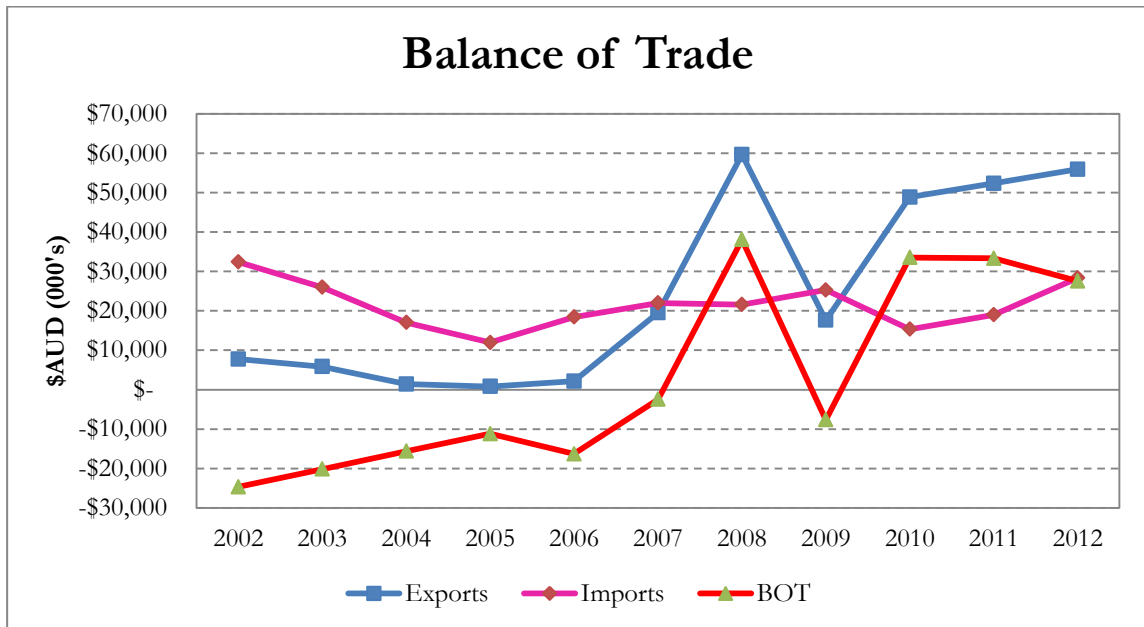
Chart 5. Exports value by primary trading partners, 2012



Note available export figures were compiled up till October 2012.

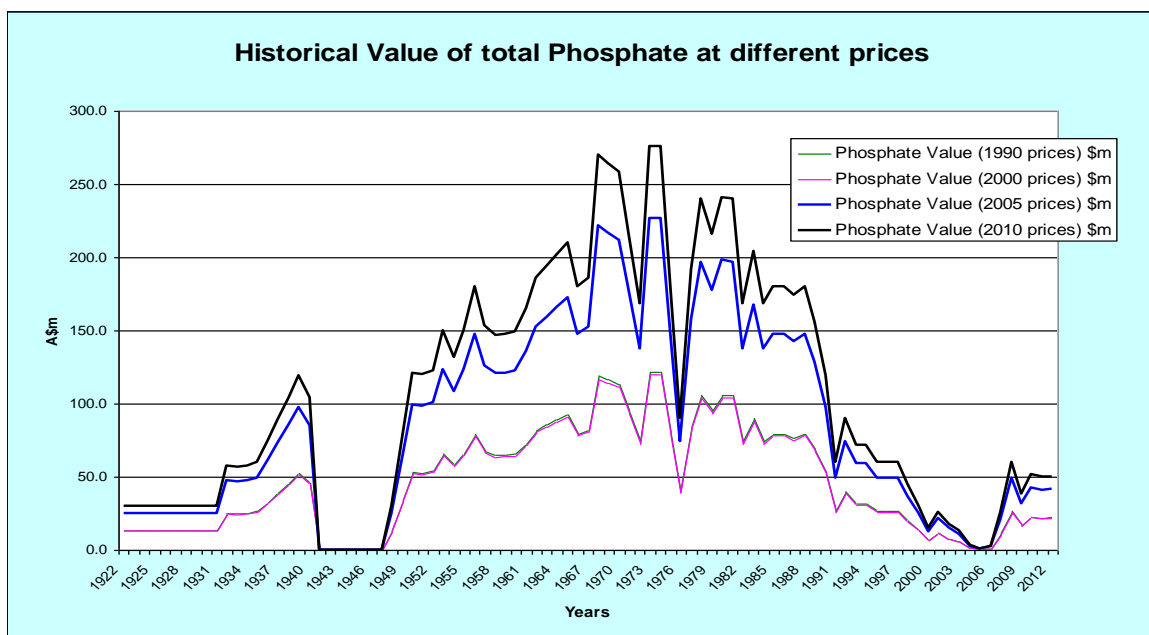
Nauru's Balance of Trade determines the health of the economy and its relationship to the rest of world. The balance of trade depicted in Chart 6 returned a surplus of AUD\$28 million in 2012 following a surplus in 2011 of AUD\$33 million. The deficit recorded in 2009 was caused by the disturbance to the mining production line and major repair was required for the mining infrastructure. We can foresee that a trade deficit will likely re-emerge as reported as the economy recovers and imports constantly increase and export expected to decline overtime.

Chart 6. Exports value by primary trading partners, 2012



Note available imports figures are only for Australia and Fiji.

Chart 7. Historical Value of Total Phosphate Export at constant and current prices



Economic growth has improved since the resurgence of phosphate mining in 2006-2007 (see Chart 7) above; this was achieved through the refurbishment of the mining infrastructure as well as restructuring the administration and the governance structure of the mining corporations. Despite recent rebounds in the industry, estimated income revenues of phosphate remain relatively low when compared to the 1970's and 1980's, when production reached its peak.

Labour Force Status

The working age population by the national standard is observed to be between the ages of 15 years and 60 years (the retirement age) for Nauru.

Labour Force is defined in the census consisting both Employed and Unemployed.

Employers

Self employed

Employees

Unpaid work

Subsistence work

Unemployed

Other paid employment

Employed population as define in the census consists of the following;

salaries/profit

subsistence

on leave and sick leave

Unemployed population as define consists of the following;

Population working age looking for work and available for work

Not in Labour Force: Population defined as Pupil attending school 15yrs +

Home duties/care,

Do not want to work,

Too old/disabled

Table 2. Labour Force Participation populations, 2002 to 2013

WORKING AGE (15+)	Census Y2002	Census Y2006	Census Y2011	Projections Y2013		
				Male	Female	Total
Total Population	10,065	9,086	*10084	5,264	5,147	10,411
Labour Force	3,280	4,106	3,952	2,538	1,597	4,127
- Unemployed	746	1,567	906	540	407	928
- Employed	2,534	2,539	3,046	1,998	1,189	3,200
Not in Labour Force	996	1,109	2,223	684	1,643	2,335
Working Age population	4,276	5,215	6,175	3,222	3,240	6,462

Note: *Including Total Persons in Institutions

Table 3. Labour Force Participation rates (%)

WORKING AGE (15+)	Census Y2002	Census Y2006	Census Y2011	Projections Y2013		
				Male	Female	Total
Labour Force Participation Rate	76.7	78.7	64.0	78.8	49.3	63.9
Unemployment Rate	22.7	38.2	22.9	21.3	25.5	22.5
Employment Rate	77.3	61.8	77.1	78.7	74.5	77.5
Inactivity Rate	9.9	12.2	22.0	13.0	31.9	22.4

Sources: Census 2002, Census 2006, Census 2011 provisional tables,

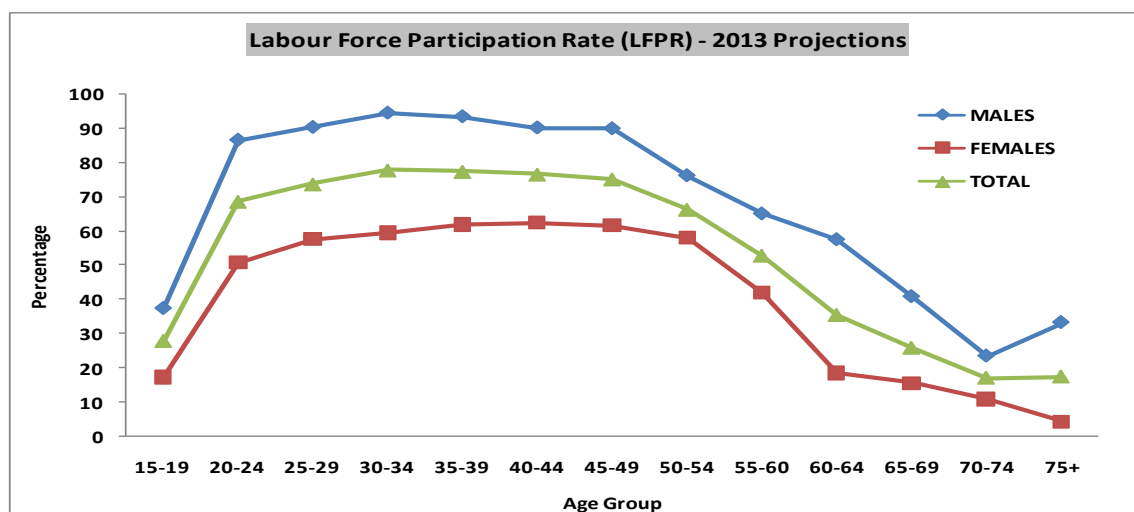
Projections for year 2013 based on rates from the Census 2011 provisional results

Table 2 and 3 are related in terms of actual and percentage figures. The Labour Force participation in Table 2 and 3 shows approximately 64 percent in 2011 and only 63.9 percent in 2013 projections. Unemployment rate was 22.5 percent in 2013, compared to 22.9 percent in 2011. A stable improvement in the level of employment occurred between 2011 (77.1%) and 2013 (77.5%). Inactivity rate also known as Not in Labour showed approximately 22 percent in 2011 and 22.4 percent in 2013. The increase in “Inactivity Rate” between 2011 and 2013 continues to show a slight increase compared to the previous results between 2006 and 2011 which mentioned from previous census reporting due to two factors; firstly in 2006 there was a significant drop in population due to the repatriation of Non-Nauruan workers and their families which were previously captured in the 2006 mini-census. Most of these Non-Nauruans households consisted of families who have stayed in Nauru for more than two generations. The second factor is the unavailability of jobs that has led to some loss in confidence for job seekers.

The Regional Processing Centre was re-opened in 2012 and job opportunities were open to the local Nauruans and according to the administration sources, the current number of employees is 215. As with the Eigigu Holdings, the job opportunities rapidly increased according to administration sources, the current number of employees is 380.

According to 2013 projections the **Labour Force Participation Rate (LFPR)** is higher for males (78.8%) than for females (49.3%). The same case with the **employment rate** shows a higher rate for males (78.7%) than for females (74.5%). The **unemployment rate** is higher for females (25.5%) than males (21.3%).

Chart.8: Labour Force Participation rates (LFPR) by age and sex (%)



The LFPR, by age and sex are presented in Figures 3. The general pattern usually shows a low participation rates for the population 15-19 years which explains the population of the particular age group are currently attending school, or may still seeking job. The pattern shows that most men engaged to the labour force at the age of 30-34 while most females at the age of 40-44. The pattern continues to show that the results are beginning to decrease at age of 50-54 leading to the retirement age 60 years and over.

The pattern shows that the result of population aged 60 years and older is still in the labour force which explains that older people continues to be economically active supporting themselves or the household by producing goods for their own consumption. The labour force participation rate shows that males were dominant than for females at all ages.

Economic Activity

Economic activity can be measured in other ways. For example participation on the labour force.

Economically Active: All population and all ages engaged in the labour market or available to be engaged in the labour market or economic activities.

Economically Inactive: All persons not classified as employed or unemployed within the working age population plus outside the working age population and also persons listed in the institutions.

Table 4. Economic Activity – 2002 - 2013

WORKING AGE (15+)	Census Y2002	Census Y2006	Census Y2011	Projections Y2013		
				Male	Female	Total
Total Population	10,065	9,086	*10,084	5,264	5,147	10,411
Economically Active	3,280	4,106	3,952	2,538	1,597	4,127
Economically Inactive	6,785	4,980	**6,132	2,726	3,550	6,284

Note: * Including Total Persons in Institutions

** Including Total Non-eligible working age persons and Total Persons in Institutions

Table 5. Economic Activity by proportion

WORKING AGE (15+)	Census Y2002	Census Y2006	Census Y2011	Projections Y2013		
				Male	Female	Total
Total Population (%)	100.0	100.0	100.0	100.0	100.0	100.0
Economically Active (%)	32.6	45.2	39.2	48.2	31.0	39.6
Economically Inactive (%)	67.4	54.8	60.8	51.8	69.0	60.4

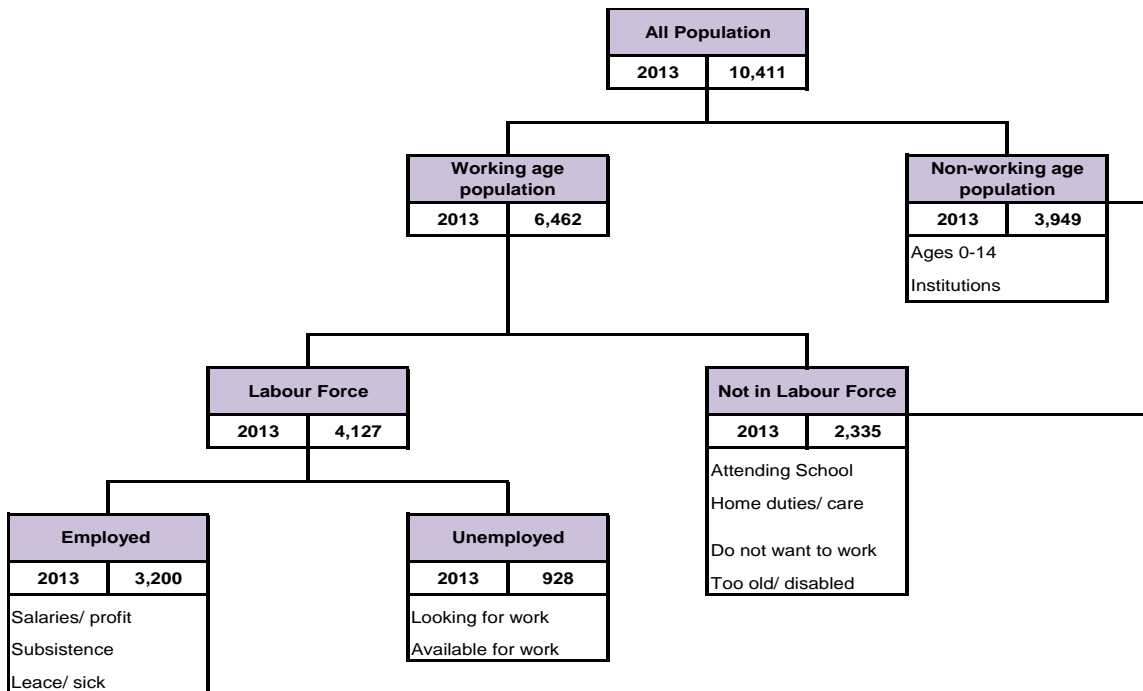
Sources: Census 2002, Census 2006, Census 2011 provisional tables,

Projections for year 2013 based on rates from the Census 2011 provisional results

Table 4 and 5 compares economic activity in actual and percentages. Economically active is calculated from the Labour Force population size by whole population size including all ages. Table 5 shows that economic activity between 2011 and 2013 has stabilised. Economically inactive is calculated from Not in Labour Force population size by whole population size including all ages as the result shows 60.8 percent in 2011, compared to a decrease of 60.4 percent in 2013.

The Government continues to provide and encourage the youth population through program known as Staff Training and Student Internships which involves placing school leavers for longer term work placements. The Youth Affairs Training Program is also another reference that targeting our youths with work attachments as both program mentioned above are a contribution to the employment workforce development program.

Chart 6. Labour Force Structure



Sources: Projection for year 2013 based on rates from the Census 2011 results

The Labour Force structure shows a clear picture of relationships. The 2013 population projections show all people total of 10,411. It shows two separate directions for Working-age population at 15 years and over, total of 6,462 and Non-Working population total of 3,949. The Working age population are people may be available or not available to work. Non-working age population are people between the age 0-14 years of age and people listed

from the institutions in the case of Nauru, in the case of Nauru it's usually the prison, hotels, hospital and the Catholic mission quarters.

The structure continues to show two separate directions for Labour Force total of 4,127 and Not in Labour Force total of 2,335. Not in Labour Force structure represents pupil attending school, home duties/care, do not want to work and too old/ disabled. Labour Force has a subset of Employed total of 3,200 and Unemployed total of 928. Employed representing pupil receiving salaries/profit, engaged in subsistence activities and on formal leave whereas Unemployed representing pupil still seeking job and available for work as previously stated above.

PART 3: Public Sector Reform

New Accounting System

A new computerised integrated Financial Management Information System (FMIS) was implemented in 1st September 2011. The Department of Finance began to process payments directly on the system.

The system has been rolled out to departments within the Government offices in Yaren. These departments have been able to upload their payment requests on the system and submit to Treasury with a tracking number. This process has to some extent improved the efficiency of the payments process. Departmental report for actuals as well as commitment items are now accessible live on the system to enable departments to better track and manage their spending.

The roll out of FMIS to other departments will continue in 2013-14. In February 2012, an independent auditor was assigned to review the FMIS's potential to provide the control and reporting requirements for Treasury and donor funds. The report was positive, but recommended a thorough review of the FMIS. AusAID has agreed to provide continuing technical assistance to support the upgrading of the FMIS in 2013-14.

The upgrading of the system will help ensure that the system will better facilitate efficient, reliable, timely and accurate processing, storage and reporting of data for all Government departments. It will further enhance departments' ability to accurately track budget availability for each natural account in their department. Heads of Department will be able to make much better informed decisions based on robust information that will be available at their fingertips. Improved financial reporting also feeds into the cash flow work, and will accordingly support Finance to provide cash flow reporting more accurately. The FMIS will also facilitate the production of auditable financial statements on a much timelier basis that has been the case since the turn of the century.

State Owned Enterprises

The Government recognises the need to improve performance of the SOE's. In 2011-12, the Government embarked on the review of SOE's management structure with the assistance of ADB. Ronphos was restructured early in 2011-12. Ronphos continues to provide royalties and dividends to Government. In 2012-13, Ronphos provided \$3.9m in dividends.

Proper recording and tracking of company assets is an essential aspect of effective company management. Asset management is required to satisfy financial reporting requirements, and

to safeguard company assets. This responsibility includes protecting assets from misappropriation, misuse, damage and deterioration. Proper management of company assets also allows for maintenance scheduling and renewal and assists in making replacement decisions. The new management structures for both Ronphos and NUC will facilitate better management of SOE assets. The Government intends to undertake similar reforms with other SOE's progressively in 2013-14.

Public Service Reform

The Government has agreed to review the public service salary structures in 2013-14 through the provision of technical assistance. The salary structure review is aimed to ensure that the Public Service is structured in the most effective way.

Public Sector Financial Management and Budget Reform

The Government continues to operate the Corporate Online banking package, which enables daily access to bank account balances and allows Treasury to make online payments to overseas suppliers without the need to seek assistance from Westpac staff.

AusAID funded technical assistance in 2012-13 for the upgrade of the FMIS. The upgrade included the systems and accounting controls of the FMIS and an instructions procedures manual.

Government has implemented the new procurement requirements to begin during 2012-13. The actual commencement date of the new procurement system will be 1 September 2013, although the procurement agent is already in place on Nauru. The new procurement procedures will require all departments to procure general items (for purchases over \$3,000) through an appointed Government procurement agency. This will ensure that the Nauru Government realise better value of its purchases. AusAID will be providing technical assistance to review relevant legislation and prepare procedures instructions manual for the new procurement requirements.

Upon completion of the FMIS review and instructions procedures, as well as of the new procurement guidelines, the Department of Finance will be able to undertake, with assistance of Donor Partners, a review and completion of the Financial Instructions manual in the 2013-14 financial year.

PART 4: State Owned Enterprises

The Government continues to look to the SOE's to be even more self-sufficient in their operations. More emphasis is being put on the SOE's requirements to provide adequate financial reporting in the interests of transparency and accountability. The people of Nauru are entitled to have financial information on corporations that serve and benefit the community and the Government is entitled to expect a return on the investments already made in their SOEs.

This section provides a brief overview of the objectives and financial expectations of the SOEs in 2013-14.

Ronphos

Ronphos has set itself a number of objectives in 2013-14, while at the same time striving to contribute to the national economy through dividend and royalty payments, and through salaries and debt repayment.

The Ronphos objectives in the coming year include:

To steer the Corporation towards a positive total net asset value by substantially reducing the Corporation's total liabilities

To contribute to Government of Nauru's national strategies through indirect revenue and timely payments of statutory funds and outstanding obligations

To ensure business continuity by progressive investment in the Corporation's vital production infrastructure

To efficiently manage the operational costs of the Corporation

To improve employee benefits and prioritise payments (Royalties) and services to the community.

Prepare effective plans and strategies for after life of phosphate is exhausted.

Refurbishment and restructure of the kilns to minimize dust emissions.

Ronphos is expected to generate phosphate sales of \$59.1 million during 2013-14 compared to phosphate sales for the 2012-13FY of US\$52.1 million. Production and export targets have been set at a realistic level based on recent performance and a review of the lands in plan for mining. Buyer demand for Nauru phosphate is continually strong; however prices are forecasted to be lowering over the coming years. Through a combination of well-targeted capital expenditure, efficient operations, ensuring no new liabilities and a re-organisation of debt repayments by Ronphos, Government expects this dividend projection to be at the low end of what may be realised by Ronphos in the coming year. The ongoing renovations to the cantilevers and the production facilities has been instrumental to maintaining the amount of exports of phosphate. The actual income that will be earned by Ronphos, and therefore the amount of dividend paid, is very sensitive to price, foreign exchange rate between the US and Australian currencies and volume of sales. However, it is expected that selling price rather than production volumes will be the most significant determinant of Ronphos revenues.

Nauru Rehabilitation Corporation

The Nauru Rehabilitation Corporation has revamped its look for 2013-14 as the year to kick start again the rehabilitation projects for the mined out lands. The ever increasing waste disposal due in part to a high influx of people and other businesses; and the high demand for aggregate from foreign and domestic construction companies have all contributed somewhat to revenue increases in the overall operational revenues for the corporation.

The 2013-14 financial year is forecasting operational revenue of \$12.4 million and operational expenditure of \$11.3 million. After depreciation, NRC is expected to make a loss of \$1.2 million the year. Planned capital expenditure for 2013-14 is \$2.8 million. Other planned revenue from Radca, interest on deposits, and Ronphos debt payments of \$4.2 million provides a proposed net cash flow of \$2.5 million for 2013-14. It should be noted that these projections are based on accrual accounting rather than cash accounting meaning

that actual cash balance will be less than the surplus estimated because there are always unpaid invoices at the end of every year.

The major contributors to revenue in 2013-14 will be the Rehabilitation and Development Cooperation Agreement (RADCA) annual payment of \$4.1 million (which will be the final payment under this scheme), contract mining charges \$8.5 million and receivables from plant hire, scrap metal and aggregate sales of \$3.7 million.

Major Objectives for 2013-14:

- a) Implement a staff performance scheme.
- b) Undertake rehabilitation projects in Buada super pit, Pit 6 and adjacent areas plus the outskirts of the Fulton and Hogan quarry site.
- c) Refurbishment of equipment on-island instead of purchasing new or 2nd hand equipment.
- d) Procure \$2.8 million of new heavy equipment to cater for the expanding scope of works of the corporation
- e) Install a user pay system for businesses and companies for the use of the dumpsite.
- f) Increase secondary mining activities.
- g) Increase capacity building programmes with emphasis on preferred onsite training.

Eigigu Holdings Corporation

For the new financial year 2013-14, Eigigu continues to shift its direction and outlook from its traditional low-cost community-targeted services, to streamlined and profitable operations which are aimed at ensuring the viability of Eigigu as a full commercial enterprise. In 2013-14 Eigigu proposes to make a profit of \$6.2 million with the Menen Hotel and the Supermarket contributing the majority towards this profit target. The Eigigu Supermarket which re-opened in 2012 intends to turn over about \$6.8 million and expects to make a modest profit of \$1.0 million in 2013-14. The Menen Hotel will continue its maintenance and refurbishment program and expects to make about \$4.5 million net profit in 2013-14. The re-opening of the RPC and therefore increased demand for accommodation has contributed to this net profit.

The Eigigu's construction arm will continue refocusing on more viable activities. These activities include renovations to the Civic Centre, construction of additional rooms at the Menen Hotel, construction of houses and modifications to the Department of Health Income from the other business activities of Eigigu Enterprises, Civic Centre and Headquarters is expected to be \$1.7 million in 2013-14. .

Our Airline

Nauru Air Corporation, trading as Our Airline, operates three Boeing 737-300 aircraft.

Our Airline is required to comply with CASA's regulatory requirements and this has had an impact on the 2013-14 budget with the addition of 4 staff to meet the requirements relating to the Continuing Airworthiness and maintenance of the aircraft.

The re-opening of the offshore processing centre on Nauru has seen a marked increase in both the services provided and the number of passenger movements. This coupled with the increase in Australian Department of Immigration and Citizenship (DIAC) activity sees a surplus budget.

For the first time in the history of Our Airline the company was projecting a profit for the year to June 2013 and will expect to earn a similar level of profit for FY 2013-14.

The key challenges that face Our Airline in the budget and subsequent years include:

Vulnerability of the Australian policy on Offshore Processing

Uninterrupted supply of fuel on Nauru at competitive prices

Increasing maintenance costs

Increasing regulatory requirements resulting in increases in overheads

Increasing fuel prices

The operation of regular public transport to Nauru from Australia remains a priority for the Government. It has been assumed that the newly introduced Majuro sectors will continue.

With the addition of a third aircraft into the fleet the airline will be looking to diversify the charter market segment so as not to be heavily dependent on just a single charter operation. Our Airline plans to actively seek opportunities to work with Nauru and other Pacific Island nations for charter work including student movements, sporting events, Forum meetings etc

PALCo & YALCo

Pacific Aircraft Leasing Holding Corporation (PALCo) and Yaren Aircraft Leasing Holding Corporation (YALCo) are the entities which own the two Boeing 737-300 aircraft, VH-INU and VH-NLK respectively, which are leased to and operated by Our Airline.

PALCo's aircraft, VH-INU, was originally financed through a commercial loan with NPRT which has since been repaid in full with interest, by refinancing with the Exim Bank of Taiwan. Through an annual grant from the Republic of China (Taiwan) the aircraft loan was fully repaid in 2012. YALCo obtained a commercial loan from Getax Pacific Finance Company Ltd (Samoa) in 2008 and this loan was fully repaid in May 2011. All charges have been released and this aircraft is now fully owned by Nauru without any debts or encumbrances. In 2013-14, both aircraft will continue to be leased to Nauru Air Corporation.

Early in the 2013-14 financial year another entity (MALCo) was created for a 3rd aircraft VH-PNI.

Nauru Utilities Corporation

Utilities continue to focus on strengthening and improving essential services to meet the energy and water needs of Nauru. It intends to address infrastructural issues and capacity constraints that often affect corporate performance. The primary objective for the coming year at the Nauru Utilities Corporation is to ensure business growth and that reductions in business losses are achieved through ongoing investment in existing but dilapidated

infrastructure. The intention is to ensure Nauruans have access to reliable and sustainable energy and quality water services.

Based on the findings of a working group supported by a consultant engaged by ADB in early 2011, the Government has agreed for the NUA to be corporatized and for the adoption of performance contracts.

Since the Nauru Utilities Corporation Act was passed in 2011, a new CEO has been recruited including the appointment of a new Operations Manager.

Demand side management programs are ongoing and funding support has been provided by the E.U. The energy efficient light bulbs program funded by the Taiwan government is having a significant impact in reducing demand for electricity. The financial management systems and processes continued to be strengthened through ongoing reviewing of and reporting on performance.

Key projects planned for the 2012-13 year include:

- a) Ongoing maintenance on existing generation units
- b) Continued upgrading to the power transmission and distribution systems
- c) Refurbishment of the water infrastructure and increases to efficiency
- d) Replacement of inefficient street lights
- e) Construction of a spare parts and storage facility for the power and water operations

PART 5: Debt Management

Over many years, previous Nauruan administrations spent recklessly and borrowed excessively. They spent large amounts in areas that provided no long-term benefits to the Nauruan people.

Nauru today faces an enormous burden of debt. Beginning in November 2006, the Government has worked with AusAID funded consultants to develop a debt management strategy, and is now addressing this considerable debt burden.

Nauru's Debt Situation

Nauru's debts are divided into debts owed overseas; debts owed within Nauru to individuals and other organisations outside of government; and inter-entity debts owed between entities within the public sector in Nauru.

Strategies for Reducing Debt

Nauru can only pay its debts by generating budget surpluses. For the foreseeable future, Nauru's budget surpluses will remain very modest. It is clear that Nauru's future cash flows will not be sufficient to repay more than a small fraction of the value of the debts that are currently outstanding.

Nauru's current level of debt is overwhelmingly large, leaving Nauru with no choice but to continue to ask creditors to agree to a substantial reduction in the total value of outstanding debts.

The Government of Nauru will continue to prioritise and organise debt repayments, with a view to further reducing the overall level of debt owed. As in 2012-13, a schedule of debt repayments is maintained in 2013-14, showing the timing of repayments and amounts to be repaid to creditors in the new financial year. Provided revenue is received in line with budget estimates, the repayment schedule will be adhered to with creditors being paid accordingly.

The proposed approach for 2013-14 is that:

\$2 million of Taiwan funds will be allocated to further payments of pending salaries owed to Nauruan Public Servants. The public debts budget is projected to increase from **\$9 million in 2012-13 to \$19.8 million** for the 2013-14 budget year.

The Government is committed to the continuation of partial payment of pending salaries (\$6.0 million) and as well as pending land lease arrears for 2004 (\$0.8 million) both totalling \$6.8 million in 2013-14. This will be the fourth and final year in which pending land leases have been paid; and it will be the fifth year in a row that pending salaries payments have been made. The pending land rental for 2004 financial year will clear all pending land rentals outstanding to land owners. Last year saw payment of outstanding land leases of \$0.8m.

Government has also agreed to provide \$6 million for the Bank of Nauru (BoN) liquidation. Ronphos will contribute \$5 million as repayment of old debts to BON. This amount will be forwarded on to the bank's liquidators, Deloitte who are managing the distribution to the debtors of the bank. Government will fund the balance of \$1 million.

The 2013-14 financial year will also see the aged and disabled individuals being paid their full and remaining pending salaries of \$1.6 million. A further \$2.9m will be paid for all Superannuation Contribution B entitlements.

In 2012-13, the Government entered into an agreement with land owners to purchase new lands of 19.1 hectares in Menen District. This costed \$1.5 million which will be provided for in full this financial year.

PART 6: Finance Sector Reform

Nauru has made considerable progress in financial sector reform since 2004. In 2001, Nauru was included on the OECD Financial Action Task Force list of Non Complying Countries and Territories, which saw a number of banking related sanctions applied against Nauru as the result of its offshore banking industry.

In October 2005, Nauru was removed from the OECD list of Non Complying Countries and Territories, following the cessation of offshore banking in Nauru and the passage of legislation designed to prevent money laundering and associated practices such as the financing of terrorism.

In April 2008, the US Treasury withdrew its previous Advisory 21 and Advisory 21A, which warned banks and other financial institutions of the need for enhanced scrutiny of transactions involving Nauru. This was further recognition and evidence of the success of Nauru's financial sector reform program.

In September 2010 a draft of the Financial Instructions was produced. A number of items in the Financial Instructions will be modified once the new FMIS system has been reviewed by technical assistance provided by AusAID in 2012-13.

During September 2010 the Nauru Government's financial systems were subjected to a Public Expenditure and Financial Accountability (PEFA) assessment. This was a thorough review carried out by a consultant funded by the ADB. A PFM Roadmap was developed. The reported results showed that even though Nauru has obvious weaknesses in the financial sector, it was not as bad as some other neighbouring countries in some of the areas evaluated by the assessment. A number of shortfalls reported have already been addressed and others are continually being worked on. With the implementation of the FMIS, a number of the weaknesses identified will also be addressed.

A suite of public financial management (PFM) related activities are expected to be implemented and rolled out in the next few years addressing the PFM Roadmap developed in 2011. The PFM reform strategic objectives cover improvements in accounting and financial reporting; enhanced revenue management systems and revenue flows; improved financial performance and oversight of SOEs; and enhanced PFM regulatory framework. The total cost of the PFM reform program is estimated at almost \$2 million for the 4 year period and involves mainly technical assistance and systems installations. For the 2013-14 budget, \$177,000 has been set aside using rollover funds under AusAID.

AusAID have created a Performance Monitoring Assessment Group (PMAG) to assist Nauru to improve its monitoring and reporting efforts. This Group comprises representatives from AusAID, PFTAC and ADB.

In February 2013, PMAG conducted a mission to Nauru to look at Nauru's progress with PFM reform, begin preparations for the education and health sector reviews and develop a ToR for the review of the Infrastructure Sector. As a result of the PFTAC progress assessment, the Nauru PFM Action Plan will be redesigned to provide a more realistic approach to implementing the necessary PFM reforms.

AusAID is assisting Nauru to develop a Public Sector Management Implementation Schedule. This Schedule will provide AusAID funds over three years to assist Nauru to improve budget implementation that will see budgets aligned with national policies and plans.

PART 7: National Sustainable Development Strategy

The National Sustainable Development Strategy (NSDS) articulates the high level development goals of the Government of Nauru and outlines the strategies and activities that will be required to achieve those goals. The NSDS remains very relevant and central to Governments development agenda. It also places emphasis on future intentions and required actions that the Government would need to undertake in order to achieve the NSDS objectives.

A review of the NSDS is scheduled to take place later in 2013. One of the primary aims of the review is to revise the NSDS document and produce a more strengthened basis for Nauru's long-term sustainable development. The review will start the process to transform the NSDS into an Operational Development Strategy which can translate to a realistic,

costed implementation framework for Nauru's sustainable development. There will be three key areas for improvement to the NSDS:

- o Introduce new elements of planning realism
- o Incorporate sustainability and risk analysis to the formulation
- o Improve the standards of planning quality used in the NSDS

The review will also formally assess and update the NSDS targets and milestones, indicating which have been achieved and which have not, and their relevance.

The progress of the goals of the NSDS is currently being monitored through the six-monthly AOP reporting process. This process links agencies annual work plans to the NSDS.

Social Sector: Progress is made in the Education sector; capacity building is occurring in areas such as the Teacher upgrading program; curriculum reviewed and standardized with new materials procured; introduction of TVET courses; and various renovation work within the schools. The new Learning Village estimated to cost \$3.8 million commenced in the first half of 2013.

The Health sector has also made progress with regards to the introduction and amendments of health policies; capacity development and improvements in staff appraisal and staff retention systems; improvements in the health information management system and patient recording; development of Standard Operating Procedures; improvements to pharmacy and storage processes; conduct of a campaign awareness for various diseases as well as health promotions and events; school health visits; ongoing management of both Non-communicable and Communicable diseases; and clinical patient care.

Cross-Cutting sector: Various new environment projects have now been initiated. These included the Biodiversity projects (National Biodiversity Strategic and Action Plan and Integrated Island Biodiversity), Ozone Depleting Substances project, and Sustainable Land Management project (begun and completed implementation phases of their work). Other projects which are ongoing and are achieving their targets include the Pacific Adaptation to Climate and Change (PACC) and the Integrated Water Resource Management projects (IWRM). The Chief Secretary's Office has made progress in the development of their Corporate Plan, introduction of the Biometric Time Clock system (currently at the trial phase), the continuation of the expansion of the Menen Hotel to house expatriate workers and their families.

Economic sector: Some of the year's highlights for the Economic sector include improvements and upgrading to the Financial Management Information System (FMIS); the BoN liquidation process is progressing; reduction of uncollected duties revenue by nearly \$800,000; introduction of the Nauru National Fisheries Observer Programme.

Infrastructure sector: On-going maintenance of the power plant generators at NUC is continuing. A new generator unit has been installed along with a new shed to house it while a new shed for the RO units is planned. Considerable improvements are occurring at the tank farm site including increasing the site's safety standards, refurbishing existing tanks and general upgrade of the facilities. In the Communications and Media sector, TV and radio broadcasting from the Nauru Media Bureau have improved sharply, and regular publication of the Mwinen Ko is achieved and ongoing without issues. A new PAPI landing system was

installed for the airport runway. At the Nauru Ports, a replacement 65 tonne crane was procured and commissioned.

Progress on the National Sustainable Development Strategy

Social Sector

The Education sector has seen many improvements in recent years in terms of net enrolment ratio, curriculum development, introduction and accreditation of TVET courses, capacity building, school refurbishments, school material procurement, policy and administrative framework.

School enrolment is seen as one of the key issues for Nauru. As such the NSDS sets out a short term goal to have the net enrolment ratio within the primary schools to increase by 20%. This short-term milestone is part of the NSDS Strategy which is to have children complete a full course of primary education. This has been achieved through a variety of strategies including media campaigns and radio broadcasts. Consequently, attendance rates have increased from approximately 65% across all schools in 2007 to around 80% in 2011. Furthermore, as part of an ongoing commitment by the Education department to ensure compulsory education of up to 18 years, a re-entry program was introduced at NSS that focuses on differentiated learning for students to cater for their needs individually.

School curriculum, especially within the secondary schools, has undergone major improvements. Approved courses from the Australian Secondary Curriculum Authority are being implemented at NSS. There were also changes were made in the Language and science syllabuses and as a result, there has been immense positive feedback from school staff regarding improvements in teacher practice and learning in classrooms. Other core subjects are also currently undergoing change.

The introduction and accreditation of TVET courses has been successful and the first group of students have graduated. TVET Trainers are also expected to undertake work placements in Brisbane to meet Registered Training Organisations (RTO) requirements.

There have been considerable advances in capacity building in Education on Nauru under the two NSDS short term milestones (1) teachers have relevant teaching qualifications and (2) that secondary schools have specialist teachers. The first milestone is currently being achieved through the teacher upgrading program. This program is essentially enrolling the current local teacher staff to a recognized tertiary institution so that they may get the proper qualification. Also early years education teacher trainees are attending USP courses for certificates. A new tertiary teaching program is being introduced in Nauru. A university provider is currently preparing to implement this program. This particular program is a first for the Pacific region.

A number of Fijian and Australian teachers have been recruited for NSS and a School Support team has been engaged to build local capacity at Nauru College. Capacity development is a primary goal of the Education department- professional development programs have been provided for CASE and DoE staff and these include senior leaders program for Managers, Good to Great program for directors and the enrolment of a number of administrative staff in USP courses.

Schools have undergone major refurbishments. Considerable work was undertaken regarding repairs to water tanks, renovation of dilapidated rooms, electrical works and other infrastructure refurbishments. A new science lab at Nauru College was completed in July 2013.

The engagement of a consultant to improve outcomes for students with disability through provision of TA and resources proved successful- one Year 2 student has been integrated back into Yaren School; two female students are commencing TVET textiles course; another student is now working three days a week at the Taiwan gardens. Efforts such as these are part of the NSDS strategy which is to give students with physical disabilities the opportunity to access mainstream education services.

Benchmarking is continuing s for literacy/numeracy. The first benchmark process for Year 6 for Literacy and Numeracy has been completed and the second benchmarking application for Years 3 and 9 is underway.

Other major achievements within the education sector worth noting are the development of the Education Management Information System which has been functional since October 2012; the Education Advisor continues to provide capacity building to the department staff as well as provide overall guidance; implementation of the School Grants program which promotes school based management system that is transparent and efficient; and the development of the Department's Annual Operational Plan.

The Health Department is currently in the process of introducing new Acts as well as update existing Health laws. The Public Health Act has been developed, and the National Medicine Policy was endorsed by the Minister for Health for legislation. Furthermore, the Health Enforcement Office is established and an expat officer is engaged to head the office- local personnel recruitment is underway for support.

In terms of its medical services, the Health Department has focused the majority of its efforts towards the training and development of its staff through expansion and strengthening nursing services by establishing the Community Nursing Zones, and introducing policies relating to the training, development and retaining of key positions. Recruitment of local and expat staff is ongoing but is primarily based on vacancies. In service training programme is ongoing with bridging courses for nurses to Bachelor Nursing initiated with the Solomon Island Nursing school- these initiatives are driven by the Training Needs Analysis 2008 and other relevant documents. The Health Training Policy has been developed and adopted. Staff appraisal for nurses is now a yearly assessment and the Succession Plan for nurses is under development and it will be linked to the Health Workforce Plan which will be developed in the 2013-2014FY.

The NSDS identified the need to improve the Health Information System (HIS). In this regard the Department was able to undertake ICD coder training; HIS consultant visits was facilitated during the year; Engagement of a Cancer Registry consultant has been completed; and training of staff on medical records is a new development and will be ongoing.

School health visits were undertaken during the year. This is part of health promotion and advocacy which includes events such as World Diabetes. Other health promotion activities and awareness relating to NCD were undertaken as planned.

The Mental Health services of RON Hospital has also improved greatly; Mental health specialist visit were accommodated providing much needed expertise in the area; World Mental Health Day was staged and proven successful in promoting and creating awareness to the public; Partnership with Digicel on 'hot line' established for emergency mental health counselling; and the Community outreach programme was undertaken.

Cross Cutting Sector

The Department of Commerce, Industry and Environment is the primary lead agency involved in sustaining Nauru's healthy environment. Some of the projects CIE has been working on include; the Pacific Adaptation to Climate Change (PACC) relating to the water sector and efforts to protect against the effects of Climate Change; the Integrated Water Resource Management (IWRM) works somewhat parallel to the PACC project but is more focused on the water sector; the Sustainable Land Management (SLM); Ozone Depleting Substances (ODS); and the Biodiversity projects.

EU GCCA: PSIS project has been approved by Cabinet to focus on increasing the rainwater harvesting capacity of households across a minimum of 200 households on Nauru. This activity will largely begin implementation in the new FY 2013/14. Furthermore PACC is currently managing the Gutter project which aims to repair and install guttering systems for households. This project is nearing its final stages and is expected to be completed in the 2013-14FY. The Drought Management Strategy developed by PACC will also strengthen and improve our rainwater harvesting system. PACC is also working in conjunction with IWRM on various other projects but the most notable ones being; the reticulated water system which will enhance the efficiency of reverse osmosis production through improvements to the desalination plants and equipment; staging various water related events and promotions; and introducing the Water Policy.

The National Biodiversity Strategic and Action Plan were approved and are currently in its initial stages of works. A major achievement is the engagement of a scientific team to come to Nauru to catalogue all land and water species in Nauru.

The key Justice positions of the Solicitor General, Secretary for Justice, Director of Public Prosecutions, and the Resident Magistrate (Judiciary) are being supported by NZAid. These are key positions identified in the NSDS that must be temporarily occupied by expatriates given the lack of local capacity. A new Justice Sector program will be developed by NZAid in late 2013.

All training needs and requirements across the public sector are centralized through Training & Development Unit, HRL in coordination with USP, Nauru Campus. The Student Internship Program (SIP) is still ongoing with an annual intake of 70 participants from NSS and overseas students on government scholarship or privately funded for a 6 weeks attachment with departments in the Public Sector or SOEs. A Continuum Program was also initiated in 2009 and continues for school leavers with an annual intake of 35 participants for duration of 6 months.

Under the Menen Hotel Project (Expatriate Accommodation project) from 2008 for renovation of rooms to include kitchen facilities, there are currently 12 family units and 21 single units completed.

To address the issue of absenteeism within the Nauru Public Service, a Biometric Clock project was implemented on trial basis in the Chief Secretary's Department on July 2012. To date this project has not progressed because of integration issues with the current HR payroll system.

Economic

A stable macroeconomic environment continues to be one of the important finance goals of the Government. There continues to be progress made in the areas of improved budget

management, introducing a broad based revenue system, management of government debt, and development of planning processes.

Responsible management of Government Budget including aid programs remains a key strategy for the Finance Department. This year considerable work was done to improve the Financial Management Information System (FMIS) and further plans are under way to expand its functional capabilities including a customized module for the management of the Development Fund.

The Bank of Nauru (BoN) liquidation process is in progress and recommendations for liquidation options from liquidators were produced and will be implemented.

Introducing broad based goods and services tax is one of the short term priorities of the NSDS. As such, the Pacific Financial Technical Assistance Centre (PFTAC) was engaged to provide support to the Nauru Revenue Office (NRO) in the scoping, enterprise profiling and public consultation components of business taxation policy development. A white paper will be developed after the public consultation phase and the probable time frame for completion is Q3 2013 with legislative development following.

PFTAC was also engaged to work with NRO in developing/expanding NRO's customer information system. At its current state the NRO lacks the capacity to capture both the financial and non-financial information of its customers which are necessary to successfully manage and account for revenues at the customer level and thereby ensure an effective and improved revenue administration system. A PFTAC Revenue Advisor is scheduled to visit Nauru to assist in this work.

Uncollected revenue is being addressed and currently custom duty debts have been reduced by almost \$800,000 despite the added stress from the influx of imports and charges from the Regional Processing Centre (RPC). Expanding the functions and capacity of the NRO is progressing but has been and will continue to be difficult given some of the issues mentioned above and further below.

Other achievements relating to the NRO include the creation and appointment with support from AusAID, of the NRO Accountant (started February 2013) which will further strengthen Government cash management and accounting. The NRO accountant will relieve some of the difficulties currently being experienced with the cash management/banking functions. A review of the Customs Regulatory Framework and Audit Procedures is also underway and assistance from Oceania Customs Organisation is being provided for this work.

The Annual Operational Plans (AOP) were introduced to all government departments in 2012. The AOPs align the national and donor budgets to the NSDS goals.

The Nauru Entrepreneurship Development Centre (NEDC) project, which assists in the development of small and micro enterprises, is progressing albeit slowly. This project was initially supported by several development partners ranging from ROC (Taiwan), AusAID and UNDP but is now primarily receiving its assistance from ROC (Taiwan).

ROC Taiwan also contributed towards the agriculture sector and with this assistance, the Agriculture division under the Commerce, Industry and Environment (CIE) is able to pursue its NSDS targets. Some of the highlights relating to the achievement of the NSDS goals for this sector include; the production of over 1000 seedlings from the Nursery that are readily available for farmers and to the general public; four to five workshops conducted for the educating of households in kitchen gardening while those households that have been

educated and are ready to begin work on their gardens, compost and mulching are provided- so far approximately just over 100 households now have active kitchen gardens; monthly workshops on livestock production was achieved without issues and is continuing.

Achieving the NSDS short term milestones within the Fisheries sector is progressing steadily. The Nauru Fisheries and Marine Resources Authority Corporate Plan 2009-2012 was approved by Cabinet except for the financial component which was deferred as Cabinet needed more time to assess the proposal. The Corporate Plan will reach the end of its lifespan at the end of the 2012-13 financial year. Most of the Corporate Plan was implemented except for the financial component and the Board structure and terms of reference, which depends on Cabinet resolutions. Significant effort was put into reviewing the Nauru Fisheries and Marine Resources Authority (NFMRA) and the need for expenditure autonomy from Government finance systems. Taking into consideration Finance department's advice, the 2013-14 budget reflects the proposed changes for greater autonomy. The Corporate Plan is at the end of its life and will need to be reviewed and updated retaining relevant matters and adding new and emerging matters.

In regards to foreign fishing licensing revenue, the NFMRA continues to maximize revenue derived from bilateral fisheries access agreements and multilateral fisheries access agreements. The Parties to the Nauru Agreement (PNA) Ministers annual meeting in 2013 agreed to an increase the value of a Purse Seine (PS) fishing day under the PNA Vessel Days Scheme (VDS).

The construction of the Aquaculture Holding Facility is expected to be fully operational in early to mid-2014. With this infrastructure in place, the NFMRA will then be in a position to roll the 5 year aquaculture plan. The 5 year aquaculture plan has been reviewed and the final document is with SPC and expected to be submitted to Nauru for implementation in the 2013-14 or even 2014-15 financial year.

The NFMRA have requested assistance from SPC Coastal Fisheries Section to develop a new fishery in the diamond-back squid for the local market. The diamond-back squid fishery is still an unknown fishery which will require new fishing techniques and an assessment to ensure sustainable fishery. Furthermore the NFMRA instigated canoe building training for locals that revived canoe fishing among locals. The training and studies into the diamond back squid markets are all part of the NFMRA's effort to sustainably utilize marine resources to increase food security and alternative livelihoods.

Another important highlight within the Fisheries sector is the implementation of the Nauru National Fisheries Observer Programme (NNFOP). In terms of the NSDS short term milestones, the implementing of the national observer program is achieved.

Infrastructure

The Infrastructure Sector was reviewed in March 2013. The review showed that Nauru was progressing reasonably well with the key infrastructure projects identified in the Nauru Economic Infrastructure Strategy and Investment Plan (NEISIP). The Government is currently considering the content of the review.

The Nauru Utilities Corporation (NUC) has made numerous improvements to its existing infrastructure. The state of some of the power poles, transformers and other key structures were decaying and causing inefficiencies in the power distribution network. Over the past years the NUC was able to gradually upgrade and renovate these key infrastructures through the assistance of various donors primarily AusAID, European Union and the regional

CROP agencies. Repairs to some of the existing generators at the power plant and the installation of a generator are further activities to be undertaken in 2013.

Other highlights in the energy sector include the ongoing installation of 155 Solar street lights around the island, as well as the currently ongoing Replacing of Household Light Bulbs project funded by Taiwan. Both projects are aimed at reducing power demand by converting existing bulbs to more efficient ones,

The main water storage shed was fully refurbished and the residing 6 concrete tanks have been repaired. Furthermore there were 45 sheds constructed for the communal water tanks. These works were funded by the EU. The Government of Japan is also a development partner that focused its aid towards the infrastructure sector and it provided ten solar water pump systems as well as 6,000 litres Poly water tanks to the communities. This will enable the communities to access the underground water as an alternate source to potable water. A new shed will be constructed to house the RO units with the main purpose of protecting them from corroding and weathering elements and thereby increase the residing units' lifespan. These works are all very valuable for improving our water storage capacity and infrastructure which is a key strategy of the NSDS.

There have also been some improvements to the Tank Farm site. Some of the projects that are being implemented for the site include; the Upgrading of the Tank Farm Electrical System which is aimed at ensuring the continuity of site operations in the event of power failures in the national grid; Upgrading of the Fuel Storage Tanks (Tank 6) which will improve our fuel storage capacity; and the Tank Farm Fire System Upgrade which is primarily aimed at raising the safety standards of the tank farm site up to the acceptable level.

In the communications sector, the Nauru Media Bureau – radio, television and print - continues to grow and improve their performances. Capacity building has been one of the key focus of the Bureau and as a result, the bulk of the Nauru Media staff are performing their individual roles more professionally. The newly built website for Nauru Media is almost at test stage and is expected to be live soon. This will allow Nauruans off island to access media stories from Nauru and will provide a valuable conduit to the realization of the NSDS goal of a free and independent media on island.

The Directorate of Civil Aviation (DCA) recently upgraded its T-VASIS lighting system for the runway to the more modern PAPI system which will improve our airport safety standards and meet the minimal international requirements.

PART 8 Nauru Development Partners

Australia (AusAID)

The five priority areas under the PPD Australia program include strengthening the public sector management; increase private sector growth improving health and education services; and power, water and infrastructure. The PPD will further build local capacity and employment opportunities through infrastructure and broad based growth, and facilitate common approaches and partnerships among donors under Nauru's coordination and leadership.

The bilateral allocation to Nauru for 2013-14 will be approximately \$20.7 million of which approximately \$15.2 million is for committed (and in-kind) funding. In addition there are

also assistance for climate change; education projects; Performance Linked Aid (PLA); improved health; and a new funding initiative for economic infrastructure. Programmable funding is expected to be approximately \$6.5 million this financial year.

Republic of China, Taiwan

The Republic of China (Taiwan) is the second largest bilateral donor to Nauru providing cash grants amounting to approximately \$5.9 million to GON in 2013-14 which includes general budget support, assistance to Nauru's foreign missions, pending salaries and grassroots projects. A total of approximately \$3.84 million will also be provided to finance loan repayments that were taken out from RoC banks for the refurbishment of the Menen Hotel. In kind assistance also includes the Technical Taiwan Mission providing direct support to the community focusing on improved agricultural techniques and the deployment of a Mobile Medical Team to facilitate the delivery of health services.

The General Budget Support grant of \$2.73 million is spread across a wide range of sectors, including the delivery of health services, better education services, membership of key international and regional bodies of mutual importance, further development of Parliament as well as the Public service and other key infrastructure projects including maintenance of infrastructure and equipment to ensure service delivery to the people of Nauru.

Financial assistance provided to Nauru's Foreign Missions will contribute to supporting the maintenance and operations of both Nauru's missions at the United Nations and in Taipei. These Missions provide support to key areas of Nauru's bilateral relations.

Annually, ROC has provided \$2.06 million for the payment of pending salaries owed to Nauruan public servants in support of Government's commitment to repaying salaries owed to its past and present workers.

Russia

There has been a significant level of renewed engagement with the Russian Federation. Critical and immediate works with the maritime port were funded by grant assistance to Nauru and there are ongoing talks between Government of Nauru and Russian Federation for further assistance.

Japan

The Government of Japan will continue its Grassroots Grant Project Aid (GGP) focusing its support on local community development through improving water security.

Successful implementation of installing Solar Powered Pumps to the 15 local communities has improved access to brackish water and therefore instigated the approval of an additional 14 Solar Powered Pump systems in 2012-13.

Successful implementation of Solar Powered Pumps in 5 communities has improved access to brackish water whilst incorporating renewable energy technology. The remaining 10 communities will also gain access to this project.

Furthermore, the Non Project Grant Aid (NPGA) which commenced in 2005 is effective only for three consecutive years for each recipient country. However due to the on-going economic difficulties faced by Nauru, GoJ extended the scheme for a further three years. Nauru anticipates for the NPGA programme to be further extended in 2013-14. GON

continues to utilize these funds for the procurement of diesel to ensure and maintain 24/7 power generation capabilities.

Under the Japanese International Corporation Assistance (JICA) the government of Japan will continue to provide up to four technical training programs per annum to further develop and enhance Nauruan capacity in acquiring and fine tuning industrial and specialized skills. In addition to the general grant aid for fisheries, Japan's Oceanic Fisheries Cooperation Foundation (OFCF) has been providing on-going assistance to Nauru's Fisheries and Marine Resources Authority (NFMRA). This assistance includes training, fisheries equipment including fishing boats and vehicles, and Technical Assistance in outboard motoring. The identification of OFCF's support and management of their assistance rests solely with NFMRA.

New Zealand (NZ AID)

Two core areas that New Zealand finances under its development program to Nauru are Justice and Education. New Zealand provides approximately \$1.8 million (\$NZ2.3 million) annually to these sectors.

The Justice Grant Funding Arrangement (GFA) came into effect in May 2010 and is due to expire in February 2014. This arrangement is providing Nauru Justice Sector at total of \$1.81 million and involves the funding of four in-line Justice positions, vital office equipment, training and development of the Legal Information Access Project. NZaid are presently designing on a new grant funding arrangement built around continued funding of expatriate salaries along with capacity development programmes.

Under the GFA the Government of New Zealand continues to provide assistance to the education sector. Continued support in the education sector will ensure Nauruan standards of education are competitive in the region and will form a path to higher educational opportunities overseas. For 2013-14, New Zealand will provide some \$750,000 for activities which have been identified and will continue to be implemented and re-enforced will markedly improve the Department's administrative duties, provide a safe and conducive learning environment as well as improve system and human resource performance management through the recruitment of a school support team to build the capacity of local teachers. A new GFA for the education sector is currently being negotiated.

In addition to the above areas, NZ will provide funding for the fisheries sector. An aquaculture holding facility is still in progress.

Asian Development Bank (ADB)

ADB will continue to support the government's effort to improve fiscal performance and structural measures to promote sustainable economic growth, strengthen corporate governance and performance of the state owned enterprises, and help protect the delivery of basic services to the vulnerable through the establishment of an Intergenerational Trust Fund (ITF).

Following the ITF discussions with the governments of Australia and New Zealand in May 2012, the government no longer required the ADF grant proceeds of \$4 million to be tied to the new ITF and that further negotiations on the ADF grant will be undertaken in June 2012.

Moreover, an infrastructure Road map for Nauru was prepared with the assistance of PIAC /ADB and the Nauru Economic Infrastructure Strategy and Investment Plan (NEISIP) was

finalized in 2012. In March 2013, this plan was reviewed by PIAC and is currently being considered by Government.

Nauru will continue to benefit from receiving further technical assistance for the reform of SOEs; improved economic management and training programmes for local audit staff under regional initiatives namely the Pacific Sector Development Initiative (PSDI), Pacific Economic Technical Assistance (PEMTA) and Strengthening Public Financial Management in PDMCs.

European Union (EU)

In 2013-14 Nauru can tap into funds under the 10th European Development Fund for the energy sector. EU's assistance focuses mainly on energy efficiency, energy distribution and developing and promoting the use of renewable energy technologies. Preparatory work was done during 2012-13 to access funds of €200,000 for the second Technical Cooperation Facility where it will provide support to the office of the National Authorizing Officer by funding a local position at the Planning and Aid Division to assist in the management of EU programme/activities for Nauru under the 10th EDF, and to provide technical assistance needed to ensure that programmes/activities are progressed and to prepare Nauru for budget support.

Support to NUC is therefore the largest activity under the current EDF. A major component of this funding will be given to improving Nauru's power distribution grid through the recruitment of a long term and short term technical assistance to assess the power distribution system and to procure spare parts to upgrade the system. This will improve safety and energy conservation, thereby increasing energy efficiency on the supply side. There is also a small component to increase energy efficiency on the demand side through public awareness campaigns.

The EU also supports climate change projects through Small Island Developing States Global Climate Change Alliance. This comes in the form of construction of standalone water catchments structures, repairs and replacements of aging roof catchments.

There is also assistance through a Resource Fund for the prevention and reduction STP's and TB. (EU and Bill Gates).

United Nations (UN)

The United Nations is continuing to provide aid to Nauru through its various regional programmes. The Global Environment Facility (GEF) will provide an allocation of \$3,000,000 over its five year funding cycle with a majority of its projects related to enabling activities. The following are projects funded by GEF: the Integrated Water Resource (IWRM) Management which aims to encourage better management practices and reduce groundwater contamination, Pacific Adaptation to Climate Change will focus on problems associated with alternative sources of water, and Sustainable Land Management to ensure it is mainstreamed into all levels of decision making; Integrated Island Biodiversity focuses on marine and terrestrial conservation; Persistent Organic Pollutants (POPs) aspires to revise and update the National Implementation Plan to deal with chemical substances that persist in the environment, bio accumulate through the food web, and pose a risk of causing adverse effects to human health and the environment; Ozone Depleting Substance (ODS) aims to deal with substances that deplete the ozone layer; and the National Biodiversity Strategy Action Plan (NBSAP) aims to revise and update the action plan to implement biodiversity priorities

Furthermore, GEF Small Grant Project (SGP) will encourage community orientated projects that relate to national environmental issues.

UNDP is continuing to provide Technical Assistance and implementation support to a number of environment projects as well as maintaining the functions of the Nauru Entrepreneurship Development Centre. As noted above the GEF Small Grant Project (SGP) is a program that will focus on environmental issues at the community level. The UN Joint Presence Office (incorporating 3 leading UN agencies – UNDP, UNFPA and UNICEF) was formally established 2010 and will continue to maintain its three major functions; responding to Nauru's current and emerging challenges through close partnership with the Government of Nauru; establishing and developing capacity in effective coordination of UN policy dialect with the Government of Nauru and other development partners; undertaking program management support for UN agencies under the guidance of their policies and procedures. The majority of the work scheduled for this financial year will revolve around providing technical assistance to the ongoing UN funded projects under CIE.

Other multilateral UN agencies such as UNFPA, UNESCO, UNESCAP, and UN-FAO have made substantial impacts in a number of sectors in Nauru providing support in the form of technical assistance to review the NSDS (2005-2025) and to assist Nauru in the self-assessment for the Cairns Compact, training and workshops in the Agriculture sector, and providing financial support for new equipment and upgrades in the Media sector.

India

India will continue to provide financial assistance to refurbishing the Menen Hotel to be used by the expatriate workers in Nauru. This project is in its third phase. It is expected that an additional \$257,373 will be provided in financial year 2013-14 to convert suite rooms into family bedrooms.

Other Donors

There are a number of other development partners who continue to assist Nauru on its path towards sustainable development. Assistance rendered by these development partners comes in a vast array of assistance, from provision of technical and financial assistance, capacity building or aid in-kind.

The Council of Regional Organisation of the Pacific (CROP) agencies have also made significant impacts in offering their expertise in managing regional projects that Nauru has and will be involved in and building capacity through the provision of workshops and trainings in country or in other Pacific Island countries. The CROP agencies also provide technical assistance at the request of recipient countries including Nauru in key sectors including agriculture, water, energy, law and justice, education, health and environment.

Nauru has recently engaged with a number of new partner countries such as Azerbaijan, Israel, Italy, Germany and the United Arab of Emirates (UAE). The GoN aspires to continue to strengthen its relations with its existing development partners and to build new links to other non-traditional development partners.

The UAE have expressed interest in assisting funding of the RON hospital rebuild after the fire tore down critical areas of the establishment.